

REMARKS

An Office Action was mailed on September 21, 2004. Claims 9, 11 – 23, 39 and 42 are currently pending in the application. With this Amendment, Applicants amend claims 9, 11, 12, 14, 17, 20, 39, and 42. No new matter is added.

EXAMINER'S INTERVIEW

Applicants thank Examiner O'Connor for granting an interview held on January 12, 2005 between Examiner O'Connor, Inventor Joseph and Applicants' representative. Mr. Joseph and Applicants' representative described the claimed invention in detail, and presented evidence supporting Applicants' position that the claimed invention is non-obvious in view of the prior art. Examiner O'Connor asked several insightful questions which were helpful for further focusing Applicants' arguments as to non-obviousness, and made several helpful suggestions for further amending the claims to better meet the statutory requirements for patentability. These suggestions and insights are reflected in Applicants' claim amendments and arguments herein.

REJECTION UNDER 35 U.S.C. § 103

Claims 9, 11 – 23, 39 and 42 are rejected under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 5,644,724 to Cretzler in view of U.S. Patent No. 6,230,928 to Hanna et al. Applicants amend claims 9, 11, 12, 14, 17, 20, 39, and 42 to further clarify the nature of their invention, and respectfully traverse this rejection.

In amended independent claim 9, Applicants disclose:

9. A method for impounding escrow funds by an electronic funds processor (EFP) from payments made via electronic funds transfer (EFT) from credit/debit card transactions transacted between a merchant, the EFP and one or more credit/debit card issuers, the EFP and one or more credit/debit card issuers being interconnected by means of at least one computer network, wherein the credit/debit card transactions are electronically initiated by the merchant via a merchant point of sale (POS) terminal that communicates with the EFP, and are electronically processed by the EFP and the one or more credit/debit card issuers, wherein the credit/debit card transactions include authorization requests made by the merchant, authorized transactions granted by the one or more credit/debit card issuers, payment requests made by the merchant concerning one or more authorized transactions, and payments made by the one or more credit/debit card issuers, the method comprising the steps of:

receiving a payment request electronically transmitted by the merchant via the POS terminal, said payment request concerning one or more authorized transactions;

determining an escrow amount based on the one or more authorized transactions;

forwarding the payment request to at least one of the one or more credit/debit card issuers electronically via the at least one computer network;

receiving an EFT payment made by the at least one credit/debit card issuer via the at least one computer network for the one or more authorized transactions;

crediting a merchant escrow account by EFT with the escrow amount, said escrow amount being debited from the received EFT payment; and

crediting a merchant account by EFT with a net payment for the one or more authorized transactions, said net payment being credited by an amount equaling the received EFT payment reduced by the escrow amount;

wherein the determining, forwarding and crediting steps are executed by the EFP upon receipt of the payment request via the merchant POS terminal, without depending on subsequent action by the merchant.

In a Preliminary Amendment, timely mailed on June 8, 2004 together with a Request for Continued Examination and Petition for extension of time, Applicants made the following arguments in regard to the rejection of independent claim 9:

Cretzler discloses a point-of-sale tax collection method and system by which a merchant may collect and store tax information associated with sales transactions. The system of Cretzler may periodically be accessed by a merchant bank for determining and making tax payments by wire transfer to various tax authorities (see, e.g., the abstract of Cretzler).

In the system of Cretzler, escrow information is processed and stored by a merchant in a specialized point-of-sale system, rather than being processed by an EFP in response to merchant transactions carried out in a conventional point of sale terminal. The Examiner acknowledges that Cretzler teaches a method by which the merchant pays tax amounts directly to tax authorities rather than by means of escrow funds placed in an escrow account by an EFP as taught by Applicants, but suggests that Hanna discloses a method that is similar to the method claimed by Applicants. Applicants respectfully disagree with this suggestion.

Hanna discloses an ATM merchant banking apparatus for use by a merchant to carry out banking transactions (see, e.g., the abstract of Hanna). The disclosed banking apparatus may include an application directed to escrow tax amounts for transfer to tax authorities from funds directly deposited by the merchant in the ATM apparatus (see, e.g., column 11, lines 46 – 59 of Hanna).

Unlike Applicants' claimed method, the escrow account credited by means of the apparatus of Hanna is not credited by an EFP in response to a credit/debit card transaction payment request made by the merchant, but is rather credited by a merchant's bank in response to a receipt of funds directly deposited by the merchant in a merchant account.

The Examiner nonetheless suggests the differences between Applicants claimed method and the method disclosed by Hanna would have been obvious to one of ordinary skill in the art at the time of Applicants' invention, as each essentially teach using an entity other than the merchant for managing an escrow account. Applicants respectfully suggest that the differences between Applicants claimed method and the method disclosed by Hanna are in fact substantial.

In the case of Hanna, the merchant must manually deposit and designate funds for the escrow account. Thus, like Cretzler, Hanna requires significant participation by the merchant in receiving and managing funds to be used for this purpose.

In sharp contrast, according to Applicants' claimed method, the EFP directly credits the merchant's escrow account with funds based upon one or more authorized credit/debit transactions and a merchant payment request. In contrast to the methods effectively disclosed by Cretzler and Hanna,

Applicants' escrow account is not credited with funds previously received by the merchant. Rather, an escrow amount is credited to the escrow account by the EFP without initial receipt by the merchant. Payments for authorized credit/debit transactions are subsequently received by the merchant from the EFP, debited by the escrow amount. Applicants' claimed method inserts the EFP to effectively eliminate merchant involvement in receiving and managing escrow funds associated with credit/debit transactions.

In the Office Action mailed on September 21, 2004, the Examiner found these arguments to be unpersuasive, suggesting that the teachings of Hanna were relied on "merely for the inclusion/use of a third party escrow account as a modification to the method of Cretzler", implying that all other elements of Applicants' claimed invention are either taught or suggested by Cretzler.

Applicants respectfully maintain that the invention as taught in independent claim 9 is not taught by Cretzler, either alone or in combination with Hanna. Cretzler together with Hanna effectively teach a merchant sales tax system that periodically determines a sales tax amount based upon accumulated sales, and reports the sales tax amount to a merchant bank. The merchant bank periodically transfers associated funds to a receiving authority (e.g., tax authority) based on a) instructions of the merchant, b) available funds in a merchant bank account and/or c) available funds in a merchant escrow account into which funds to pay the sales tax amount have been segregated. In any case, funds are escrowed by the merchant or the merchant system only after payments owed to a merchant are received by the merchant or by the merchant bank.

By way of sharp contrast, according to the novel approach taught by Applicants' claimed invention, an electronic funds processor (EFP) impounds funds (e.g., such as sales tax amounts) based on payment requests transmitted by the merchant to the EFP in regard to credit/debit sales transactions. The EFP processes these payment requests in a conventional

manner, in conjunction with credit/debit card issuers. Upon receipt of payments relating to these transactions by electronic funds transfer (EFT), the EFP impounds escrow funds debited from the payments before transmitting net payments (less the impounded funds) to the merchant or merchant bank by EFT. Alternatively, the EFP may instruct a debit/credit card issuer to transmit an EFT payment to the EFP in the amount of the escrow funds for impounding, and to transmit the net payment by EFT directly to the merchant or merchant bank.

In other words, in sharp contrast to the disclosures of Cretzler and Hanna, Applicants' claimed invention provides a method by which escrow funds are impounded from merchant payments before the payments are transmitted to the merchant or merchant bank. In distinction to methods disclosed by Cretzler and Hanna, Applicants' claimed method effectively provides the merchant with no access to the impounded escrow funds.

These differences are significant for several reasons. First, in sharp contrast to the method taught by Cretzler and Hanna, Applicants' claimed method requires no special action to be initiated by the merchant or by a merchant system in order for funds to be impounded. Impounding proceeds directly and automatically from the conventional credit payment requests made by the merchant. Accordingly, the merchant's burden for making sales tax payments is substantially reduced.

In addition, because escrow funds are directly impounded from payments to be made to the merchant by the credit issuers before payments are made to the merchant, sufficient funds are always available for making escrow payments. In sharp contrast, according to the method taught by Cretzler and Hanna, escrowed funds and tax payments are made from funds first transmitted to the merchant. Such funds may ultimately be insufficient

for making tax payments, for example, if the merchant makes withdrawals against these funds for other purposes. By impounding escrow funds such that they are never in the possession of the merchant, Applicants' claimed method provides a much more reliable source of funds for making tax payments. This provides a significant advantage, for example, to tax authorities who today expend significant energies to collect monies owed directly from the merchants.

Finally, Applicants' claimed invention provides a new role and associated business opportunity for EFPs. EFPs are uniquely positioned to perform the steps of the claimed method. Based on the above-discussed advantages to merchants and tax authorities, Applicants submit that the associated business opportunity for EFPs is significant (for further support for this view, see declarations referenced below).

In the present Office Action, the Examiner appears to acknowledge the above-argued differences between Applicants' invention and the cited art, but suggests none-the-less that the differences relate simply to the selection of entities employed to execute the process, and that these differences are "merely [] a matter of design choice" that "would have been obvious to one of ordinary skill in the art" (see, e.g., page 5, lines 2 – 7 of the Office Action). Applicants respectfully disagree.

In order to consider whether the present invention is obvious in light of the cited references, we must begin by identifying the characteristics of "one of ordinary skill in the art". In relation to the claimed invention, Applicants submit that one of ordinary skill in the art would be represented primarily by credit card processors and payroll companies, and secondarily by tax software companies and by government groups seeking to achieve sales tax reform such as the Streamlined Sales Tax Project (SSTP). The SSTP is a cross-industry

group organized in March 2000 by state government representatives to develop a simplified sales and use tax administration system (see, e.g., “Streamlined Sales and Use Tax System: Adoption of Landmark Multistate Agreement”, Pillsbury Winthrop LLP Stats & Local Tax Bulletin, <https://www.pmstax.com/state/bull0211.shtml>, November 2002).

Payroll companies and credit card processors respectively perform payroll tax impounding and credit card processing via EFT, and would therefore arguably have the necessary skills required to understand and practice the present invention. As the present invention presents a new business opportunity for such companies, they would in addition have the necessary motivation for developing and practicing the present invention.

Applicants submit under 37 C.F.R. § 1.132 declarations made by Mr. Alan S. Klein and Mr. James G. Robertson, which are enclosed with the present Response. Mr. Klein is currently Chief Executive Officer and President of Ace Payroll Services Inc. Mr. Robertson is a recently retired and former Vice President of Automatic Data Processing (ADP). As is evident from their declarations, both Mr. Klein and Mr. Robertson have extensive experience in payroll tax industry.

Mr. Klein and Mr. Robertson each acknowledges that they are familiar with the present invention, and submits as an opinion that the present invention provides an attractive business opportunity that would be investigated by payroll companies and/or other financial services companies if known to these companies. Each further submits, to the best of his knowledge, that the present invention has not been identified, considered or used by anyone other than Applicants. Mr. Klein acknowledges that it is his informed belief that the method of Applicants’ claimed invention has in particular not been considered by First Data Corporation (FDC), which acquired Taxware International Inc. (Taxware) in 2001, a leading

developer of global transaction-based tax calculation and compliance systems, and holds itself out to be "world's largest independent, third party transaction processor " (see, e.g., http://www.firstdata.com/svcs_intl_fdintl.jsp). FDC's businesses include EFP services and sales of tax software, thereby uniquely positioned the company as having the skill sets necessary to practice the present invention.

Applicants offer the following rationale to explain why the present invention has apparently not been considered by these groups and others in the financial services industry, and why the present invention is accordingly nonobvious.

Applicants developed the present invention in large part in response to insights provided by one of the inventors (himself a "merchant" or "seller") into the capabilities of third party payroll services and credit card processors. The vast majority of sellers today use a third party payroll service and a credit card processor respectively for managing payroll tax compliance and credit/debit transactions, and yet many of these same sellers struggle to manage sales and use tax compliance. As the majority of sales transactions today are executed as credit/debit card transactions, the inventors recognized the potential for linking sales and use tax compliance to credit/debit card transaction processing, and developed the claimed method based on this inventive insight.

Applicants are not alone in their recognition of a need for improving sales and use tax compliance. The above referenced SSTP was formed because "the existing-and notoriously antiquated-state sales and use tax system has been widely recognized by state governments and businesses alike as overly complex and unduly burdensome." Ibid. While sellers have expressed interest in obtaining a third party passive method to calculate, collect, file and remit sales and use tax on their behalf, the current evidence (as expressed, for

example, by the above-described declarations) suggests that no one has yet provided a solution in the framework of the present invention. Applicants offer the following explanation for the present state of this art.

Applicants submit that one aspect of the novelty of the present invention rests in its ability to bridge seemingly disparate industries who share a common IT thread of processing funds via EFT in order to produce the intended result. These industries, including credit card processors, payroll companies, tax software companies and State governments (as expressed, for example, through the SSTP), each hold a different piece of the puzzle to implementing third party sales and use tax processing. But so far, no single industry has developed the insight and taken the initiative to piece together the disclosed elements of the present invention. Applicants submit that, if the present invention were truly obvious to one skilled in the art as of the time of invention, in view of the benefits provided, the present invention would be a part of the current tax collection lexicon by now.

Consider the amount of effort being expended by the SSTP since its inception in March 2000 to resolve some of the current sales and use tax issues facing state governments and sellers in light of the Supreme Court decision in Quill Vs. North Dakota. See Quill Corp. v. North Dakota (91-0194), 504 U.S. 298 (1992). As stated by Charles D. Collins, Jr., a co-chair of the SSTP, in a press release from the SSTP, “The states are at a point in their discussions where they need input and suggestions from companies who have been intimately involved in sales tax return preparation on a national scale. We have many questions regarding how individual elements of the proposed streamlined sales tax system can be accommodated by the companies who will be utilizing the system.” See Ellen B.

Marshall, "Streamlined Sales Tax Project", Press Release,
http://www.streamlinedsalestax.org/press_rel/519press.pdf , May 19, 2000.

As described in the SSTP press release Mr. Collins requested that a process be developed to execute the collection and filing of sales tax on behalf of a seller. Several major tax software companies including Taxware and Vertex, and hardware companies including Pitney Bowes and Hewlett-Packard, were awarded contracts and were performing R&D for the SSTP (see, e.g., Pitney Bowes press release,
http://pb.com/cgi-bin/pb.dll/jsp/EditorialDetail.do?editorial_id=ed_8787&channelNa,
October 19, 2000).

In 2003, a memorandum was written by Andy Sabol, director of the Sales and Use Tax Divisions of North Carolina Department of Revenue to Diane Hardt and Scott Peterson, Co-Chairs of the SSTP detailing the progress made on the Tax Solution Pilot (see, e.g., Andy Sabol, "Streamlined Sales Tax Project", Memorandum,
<http://www.streamlinedsalestax.org/recap%20of%20pilot%202003.pdf>, March 26, 2003). As described in this memorandum, as of this time, results continued to be quite limited, and problems persisted (for example, in integrating third-party vendor and seller systems). Thus, it appears that SSTP has not yet successfully developed a process for third-party processing of sales taxes, Moreover, Applicants have found no evidence to suggest that any of the research supported by the SSTP to date has suggested the solution provided by the Applicants' invention.

Further evidence as to the difficulty major tax solution companies are experiencing in creating a solution for sales and Use Tax collection can be found on the website of

Taxware (see <http://www.taxware.com/solutions/salesusetax.html>). Currently, the website claims that:

Taxware's Sales and Use Tax Solution is the industry's most robust and flexible tax calculation and reporting system, combining market leading tax research and technology. Operating as an integral part of your existing financial or accounting system, the Sales and Use Tax Solution automatically calculates taxes for sales, purchases and rentals. Key features of the Taxware Sales and Use Tax Solution are: Completes all tax calculations including exemptions, special rates, caps and thresholds. Seamlessly transmits tax calculation results to your business' accounting or finance software for presentment on a transaction document or UI screen Records tax calculation results in the Sales and Use Tax Solution Audit File for later reporting. Provides comprehensive reporting with line item detail. Includes the industry's most comprehensive Product Taxability Matrix. Handles full and partial exemptions and has the ability to prevent overrides. Operates in conjunction with Taxware's WorldTax Solution for global tax calculation.

As described on the website, and in contrast to Applicants' claimed invention, Taxware's approach provides a stand-alone system that is used by sellers to calculate sales and use taxes and forward sales tax payments to the appropriate tax authorities. Significantly, Applicants were unable to find any information on this website or elsewhere by which Taxware claims to offer or to be planning to offer an automatic and passive EFP-driven solution for the collection and payment of sales and use taxes such as is disclosed by Applicants' claimed invention.

In summary, Applicants express the opinion, based on the evidence offered above, that no other entity, including the SSTP, tax software developers, hardware developers, credit card processors, payroll companies or other financial services institutions, has disclosed or otherwise provided the capability for executing a tax collection process according to the principles of Applicants' claimed invention. This opinion is further

corroborated by the opinions of Mr. Klein and Mr. Robertson, acknowledged experts in the payroll tax industry, as discussed above and recorded in the attached declarations.

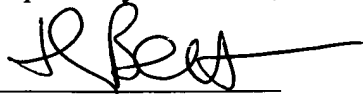
With reference to MPEP § 2144.03 and 37 C.F.R. § 1.104 (d)(2), Applicants respectfully submit that the above-presented arguments effectively rebut the Examiner's assertion that Applicants' claimed invention as claimed in amended independent claim 9 is obvious over the prior art as a matter of design choice as would be practiced by one of ordinary skill in the art, and that amended independent claim 9 is therefore allowable. As claims 11 – 23, 39 and 40 each depend from allowable claim 9, Applicants further submit that claims 11 – 23, 39 and 40 are allowable for at least this reason.

CONCLUSION

In view of the amendments and set forth above, this application is in condition for allowance which action is respectfully requested. However, if for any reason the Examiner should consider this application not to be in condition for allowance, the Examiner is respectfully requested to telephone the undersigned attorney at the number listed below prior to issuing a further Action.

Any fee due with this paper may be charged to Deposit Account No. 50-1290.

Respectfully submitted,



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